Switching Barriers as a Competitive Tool in Carbonated Soft Drinks Industry in Nigeria

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Abstract
This study discusses the creation and the use of switching barriers as competitive tools in carbonated soft drinks industry in Nigeria using a qualitative approach to elicit information, the study used focus group method to collect primary data that was used. The focus group session was conducted where in an in-depth discussion took place. The researcher was the moderator and each participant are chosen purposefully from the management team of the case study to answer the questions on how the artificial barriers are created and why it is preferred as a competitive tool. Content analysis was employed to analysis the information gathered. The findings, among others state that the use of artificial switching barriers can weaken emerging competitive product since the competitor are already restricted in the outlets conceded. The paper concludes that policy makers should see this as an opportunity to enforce some special tax on exclusivity to discourage interested companies and encourage fair competition.

Keywords: Competition, competitive tools, Switching Barriers, switching cost, Carbonated soft drinks industry, interpersonal relationship.

1. Introduction
Switching behavior includes making decision to switch from product or organisation which customer currently patronize with another product or organisation and also predicting factors that influence this decision Most of the writers on switching discussed consumer switching behavior in service industry. for example M. Saklish, K.S. Kumar & Ujor Naveen and V. Jeevaneethon (2011), sukekyu Lee, Fred Zufyden and Naxer Dareze (2002), Sharaffi Value, Resonl Agini Mehr, Seyyed Mohammed and Tabalaba1 (2013), Oyeniyi Omotayo and Abiodun Abolaji Joachim (2008), just to mention a few. It is important to note that customer also switch in consumer goods sector and it is easier and more pronounced.

Switching behavior is a consumer behavior where in the behavior of the consumers differs based on the satisfactory level of the consumer with the company or the product. Switching behavior can be defined as the process of patronizing one service or product and then switching to another service or product, due to dissatisfaction or any other problem. If a consumer is loyal to a particular brand, if the brand does not satisfy his/her needs, the consumer switch to competitor brand. There are many factors which affect the consumers in switching from one user to another. This may include the cost of switching(porter 1980, Jackson 1985, Ping 1993, among others), past behaviors, (for example Liljander and Stradvik1995), interpersonal relationship (jones et al 2002) and many other factors.

This paper discuss the creation and the use of switching barriers as a competitive tool, also the paper is interested in accessing the reasons why organization have to use artificial barriers to ward-off competition despite the ethical issues that borders on freedom of choice of consumers. Existing companies, both small and large do not typically welcome competitors. As Karl H. Vesper (1989) puts it that established companies

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do their best to maintain proprietary shields to ward off prospective as well as existing competitors completely, the entrepreneur who would create a new competitor to attack them needs some sort of “entry wedge” or strategic competitive advantage for breaking into the established pattern of commercial activities.

In other word, one of the strategic tools used by established companies to ward off competition is through the use of artificial switching barriers.

2. Literature Review

Switching or change happens when the customers cut their business relationships with the organization (Stewart, 1994, Hirshman, 1970). Buth (1998) argued that switching happens when a customer decides not to buy service(s) whether the whole or specific services. In banking industry, switching customers change their bank (Gralend, 2002). Switching is a natural intention of customers to cut business relationships with a firm permanently or for a specific period of time (Chandra and Krishna, 2006). To put it a simple way, switching points out the customers who decides to replace a service provider with its competitors. Thus, switching is divided into general and trivial switching. The later means that the customer supplies parts of previous or new services from new providers; while in the former; the customer completely cuts the business relationships and replaces the service provider with new ones. Complete switching is easily detectable, while it is not the same in the case of trivial switching. Trivial switching may turn into complete switching in time. In Customers switching, companies might be losing customer for different reasons. To put it more accurately, switched customer is the one that is about to stop using the services and switch to services provided by the rivals (Heden, 2005). Two general groups of switching can be noted; switching by will and mandatory switching (Henden, 2005). The former happens when the organization stops delivering a service for, among many, misuse of the services or unpaid bills. On the other hand, switching by will happens when the customer deliberately decides to stop using the services and switches to the rivals. The causes of such behavior are technological changes, economic concerns, qualitative concerns, type and availability of the services, and even bad experiences with the employees (Kim and Ion, 2004). Regarding business intelligence, managerial measures to deal with switching customers encompasses two main sets of analytical models; 1- spotting groups of customer who may tend to switch; 2- finding the most effective reaction in such cases even if it remains silence. Barz and Vendonpol (2015) quoted in Vahid Sharafi, Rasoul Azimi Mehr, and Seyyed Mohammed Tabatabaei Mehrizi introduced two attitudes that influence customer switching management; proactive approach and reactive approach. In reactive approach, the company tries to keep the customer in the company only when the customer requests termination of the business relationship. On the other hand, under the proactive approach, the company tries to avoid this by spotting groups of customers who may switch and persuade them by offering incentives and privileges. Management experiences show that the proactive approaches are more effective that reactive ones, while they are more economic (part of the costs of losing customers occurs in the form of social profits that is acquired by the rivals and negative words of mouth advertisement). Furthermore, proactive approach needs high accuracy coefficient to avoid wasting resources for the customer who are not potential switching customers. Implementation of data-mining processes in large businesses can lead to development of a system that response before the customer decides to switch. Such systems provides a framework to enforce proactive control-preferred from of managerial control (Gladi, 2009).

Switching Behaviour

Switching behavior includes making decision to switch the organisation, which currently provides product or services, with another organisation and also predicting factors that influence this decision”. Taylor (2002) showed that customers who possess positive attitudes to change service providers have more tendencies to switch. When stringent behavioral controls are in place, i.e. cost of switching is low. Among such costs are habits breaking costs, mental threats, and/or cognitive load. Furthermore, perceived behavioral control is strongly related to switching intention. Mental norms can also be effective as customers with positive attitudes tend to neglect poor services in some cases. In addition, they showed that attitude towards switching is the strongest factor in switching. A notable point is that intention may only predict the
customer’s attempts to show a specific behavior; still a mere intention does not mean that it leads to an actual behavior. As a general rule, when people have stringent control over showing specific behaviors (i.e. perceived behavioral control), intentions and purposes can be predicted with high accuracy. Studies have also revealed that past behavior can be a reliable predictor of future behavior. This hints that it is not easy to find a proper measure for future behaviors, while the best measure we have is the past behavior. Perceiving why people switch service providers through recognizing the factors that influence their decisions in this regard leads us to define eight factors in switching behaviour including pricing, lack of contingency, inefficient services, inefficient service provision, responses and reactions by colleagues to inefficient services, advantages of the competitors, moral concerns and mandatory switching.

The concept of participation refers to relationship between an individual’s perception of object based on intrinsic needs, values and interests; it may also refer to the customers perception of advertisement, type of product or decision to make a purchase, higher participation to solve problem, active search, and using available information to achieve most reasonable decision. Low participation rates hints that the customer does not recognize gravity of consequences of making a specific purchase and does not care if there are other alternatives (Engle, 1986). Thus, the question is if participation has any effect on switching intention and behaviors. Studies conducted in banks have shown that participation has to do with the bank customer’s engagement in choosing a bank; that is, the customer thinks that it is wise to choose a specific bank.

The factors that influence the customer to keep or stop using a service are function of switching motivations. Satisfactory service lead to keep using and unsatisfactory services lead to stop using a service. Still, not all factors in leaving have to do with switching (Colgate, 2007). Among the factors that motivate customers to stay with a service provider are costs/problems of switching so that the less the costs/problems, the stronger the intentions to switch.

**Switching Barriers**


White and Yanamandram (2004) referred to five switching costs: uncertainty costs, pre-switching costs, set-up costs, post-switching costs, and benefit/loss costs. Uncertainty cost is the psychological uncertainty for an untested service provider (Guiltinan, 1989). Pre-switching costs are the time and effort of search and evaluation costs, which are the same in Jones et al (2000). Set-up costs are the time and effort for setting up the new service process associated with a new provider (Guiltinan, 1989). Post-switching refers to acquiring and adapting to the new procedures from Jones et al. (2000). Benefit/loss costs are the loss of benefit which is offered from an incumbent when the customers switch to the new provider (Guiltinan, 1989; Turnbull and Wilson, 1989).

A body of research has also examined two or more factors that seem to have influenced a customer’s decision to remain with a service provider. Studies have investigated service quality, switching costs and loyalty (Ruyter et al 1998), and availability and attractiveness of alternatives and switching costs (Sharma and Patterson, 2000; Grace and O’Cass, 2003). None of the studies focused on the effect of the barrier(s) amongst dissatisfy customers.
Switching Cost

Switching costs are conceptualized as the customer’s perception of the magnitude of the additional costs required to terminate the current relationship, and secure an alternative (Porter, 1980; Jackson, 1985; Ping, 1993). These perceived penalties for disloyalty deter customers from switching to a competing firm. Switching costs include not only those that can be measured in monetary terms but also the psychological effect of becoming a customer of a new firm, and the time and effort involved in buying new product (Dick and Basu, 1994; Kim et al. 2003; Klemperer, 1995; Sengupta et al. 1997). The literature also discusses switching costs in the context of industrial buyer-seller relationship; with B2B marketing theorists offering a two-part (Speakman and Strauss, 1986; Nielson, 1996) or a three-part typology (Jackson, 1985).

Gronhaug and Gilly (1991) argue that a dissatisfied customer may remain loyal because of high switching costs. It has been argued that the costs of switching providers tend to be higher for services than for goods (Gremler and Brown, 1996). Switching costs are high for services that are intrinsically difficult to evaluate, or for which there is only a limited number of suppliers (Brown and Swartz, 1989; Patterson and Johnson, 1993). Literature in the areas of industrial marketing and distribution channels also suggest that a relationship may continue to exist due to the buyer’s perceptions of the high switching cost (Porter, 1980; Ping 1994) even if the relationship is not a satisfactory one. In this situation, the customer does not feel any strong links with the service provider, but repeats the same buying behavior in order to reduce the perceived risk linked to a bad choice (Bozzo, 2002). Perceived risk implies customers experience pre-purchase uncertainty as to the type and degree of expected loss resulting from the purchase and use of a product or service (Cox, 1967). Since services are intangible and heterogeneous, customers will perceive risk increases, the likelihood of loyalty to one brand increases (Javalgi and Moberg, 1997).

A number of studies have empirically tested switching costs as a main determinant of customer loyalty in consumer markets (Gremler, 1995; Ruyter et al., 1998; Burnham et al. 2003; Beerli et al. 2004; Caruana 2004) as well as in a B2B service context (Lam et al. 2004). Further, the main effect of some switching barriers on customer retention has been empirically validated in consumer settings (Lee et al. 2001) as well as the effect of barriers (such as interpersonal relationships, switching costs, attractiveness of alternatives) evident regarding the propensity to stay with the service providers (Jones et al., 2000; Patterson and Smith, 2003). Heide and Weiss (1995) found that switching costs acted as the main determinant of behavioral loyalty, and not as a mediator in a B2B setting.

Richard Lee, Jamie Murphy, University of Western Australia (2005), in their study investigates determinants that cause mobile phone Customers to transit from being loyal to switching. It concluded that there are different factors which affects the customers to switch from loyalty to switching intentions such as price, technical service quality, Functional service quality, switching costs, etc. but, the rating was given that price is the most important factor which affects the customers to switch loyalties to another provider.

Mohammed Sohel Islam (2008), in his study examined the relationship between switching cost, corporate image, trust and customer loyalty. The research finds that although all the independent variables, switching cost, corporate image, and trust have certain degree of relationship with the dependent variable, customer loyalty, only trust has the strongest relationship with customer loyalty.

Conor Twomey (2008), Department of Statistics, University College Cork, Ireland, they try to identify hysteresis in the switching patterns of customers in the Irish mobile phone industry. Mitja Pirc, Universitat Pompeu Fabra (2006), Spain, the Mobile telecommunications service sector, in spite of providing high service quality and striving for customer satisfaction, is characterized by dynamic customer services and mobile phone, he provides the explanation on the factors of customer switching. It is found that the mobile services usage effect on switching intentions is curvilinear (positive linear and negative quadratic) and that only the budgetary constraint regarding the service matters and not the one related to the mobile phone. Past mobile service providers switching experience also contributes to the intention to switch. Mobile phone ego involvement has positive impact on Customer retention; however, purchase involvement (both mobile phone and mobile services) increases customer risk.
Oyeniyi, Omotay and Abiodun Abolaji Joachim (2008), He attempts to find the relationship between Customer services on Customer retention in telecommunication industry in Nigeria. If retention is not managed, Customer’s loyalty may be lost. He examines the potential constructs in Customer retention by investigating the chain of effects of retention from Customer service, satisfaction, value and behavioral intention. The hypotheses are supported except that a higher level of Customer satisfaction does not lead to Customer loyalty. Customer satisfaction does not necessarily lead to customer’s loyalty. It is assumed that when the customer is satisfied, then loyalty towards the telecom company is strengthened. Their results, further show that the respondents in their study have a positive impression towards their telecom company’s ability to meet their changing needs.

**Interpersonal Relationships**

Interpersonal relationships refer to the strength of personal bonds that develop between customers and their service employees (Turnbull and Wilson, 1989; Berry and Parasuraman, 1991). The interpersonal relationship built through recurrent interactions between a service provider and a customer can strengthen the bond between them and lead to a long-term relationship (Kim et al., 2004). Interpersonal relationships are especially important in services given the high degree of personal interaction, the intangible nature of the service, the heterogeneity of service outcomes, and the prominent role customers play in service production (Czepiel, 1990). Liljander and Strandvik (1995) describe a “knowledge bond” as a type of bond that serves as an exit barrier for the customer who continues to deal with a service provider with whom they are dissatisfied because they have confided in them for so long. Joneet al. (2000) discovered that, in situations of low customer satisfaction, strong interpersonal relationships positively influence the extent to which customers intend to repurchase. Gwinner et al. (1998) argue that even if a customer perceives the core services attributes as being less than optimal, they may remain in a relationship if they are receiving important relational benefits. In this regards, researchers (for example, Frenzen and Davis, 1990; Dick and Basu, 1994) contend that social benefits mitigate the influence of satisfaction with the core service by encouraging customers to remain with their service provider even in situations where core-service satisfaction is less than complete in consumer markets. Social benefits have been presumed to include feelings of familiarity, personal recognition, friendship, rapport, and social rapport (Barnes, 1994).

While some scholars have included interpersonal relationships as a dimension of switching costs (Jone et al. 2002; Burnham et al. 2003; Patterson and Smith, 2003), others have treated them as two separate constructs (Ping, 1993; Watne et al., 2001). While both interpersonal relationship and switching costs derive from previous investments in the supplier/service provider relationships derive from an individual’s investment in social capital (Coleman, 1990), switching costs arise from organizational level investments in transaction-specific assets (Williamson, 1985). Thus, each dimension exists at a different level, that is, interpersonal and inter-organizational, respectively (Watne et al. 2001). In Wilson’s (1995) terminology, these two factors are examples of social and structural bonds, respectively. Hence, interpersonal relationships and switching costs are treated in this study as two separate determinants.

**The Negative and Positive Switching Barriers**

Customers’ motivation to maintain relationship with their service provider can have two origins: either they have to continue a relationship because of constraints or they want to stay in a relationship because of dedication. There is a great difference between these two reasons for continuing the relationship (Julander & Soderlund 2003).

In the first case, the relationship between customers and their service provider is a “constraint-based relationship” (Bendapudi & Berry 1997), which can be imposed on the customers in a formal or informal way. The relationship is maintained according to the customer’s evaluation of the switching alternatives. This evaluation compares the exit costs and the difference between the profits hoped-for at the competing providers and the profit from the current situation. If this evaluation is positive, the customer is in a position of weak economic dependence that facilitates the change. In the opposite case, the customer is in a situation of dependence and is more or less forced to maintain the relationship. Its decision to continue or end the
current relationship with his service provider is determined by the degree of perceived dependence; the more significant this dependence, the more the customer is obliged to stay.

In the second case, consisting of a “dedication-based relationship” the continuity of the relationship is actively desired by customers (Stanley & Markman 1992). Customers maintain relationship because they wish it, without being limited by constraints in their choice. This second category supposes the existence of an emotional link between customers and their service provider (Bendapudi & Berry 1997). Customers are less receptive to the competing offers and less inclined to search for alternatives. The availability of attractive alternatives on the market (Henning-Thurau & al. 2000) has no influence on this type of relationship.

Contrary to the classification of Julander & Soderlund (2003), the risk perception barriers are in the negative switching barrier (NSB) category. This type of barrier can cause a feeling of detention in the relationship and does not allow the development of positive attitudes. In the mobile telephony sector, because of the market oligopoly structure, the lack of attractive alternatives (Vazquez-Carrasco & Foxall 2006) increases the risk of switching. Consequently, the risk perception barriers do not have a positive influence on the customer’s attitude to his current service provider.

In the positive switching barrier (PSB) category we can find the economic performance barriers, the functioning performance barriers and the relational performance barriers. These barriers have the following origins: rewards customer loyalty with special offers, (e.g. gifts, discounts); ease of functioning (e.g. satisfaction of the specific needs); interpersonal links (e.g. familiarity, attention, friendship or affinity). Their common point is that they contribute to increase the customer’s positive attitudes towards their service provider and strengthen the relationship. They make an active contribution to developing the customer’s commitment (Julander & Soderlund 2003).

In summary, Most of the studies mentioned in literature and host of others concentrated their work on service industry. This paper tends to look at switching barriers in product/goods industry using carbonated soft drinks industry as a case study. This paper also attempts to work on organizationally or artificially created switching barriers as against switching barriers caused by customers willingness to switch. kovesi, klan and phillipe Roberts-Desmonround(2010) and the use of this barriers as a competitive tool.

3. Methodology
   The primary data collection method used is focus group method. A focus group session was conducted where in an in-depth discussion was carried out comprising 10 mangers of Cocacola company limited. The researcher acted as a moderator to discuss the use of switching barrier as a competitive tool.

   Each participant are chosen purposively from the management of Ilorin plant of Cocacola bottling company Plc. to answer the question on how Cocacola uses switching barriers as a competitive tool.

   Content analysis was used to analysis the study.

4. Analysis
   The management received a proposal from the Sales manager supervising a particular outlet. This proposal contains among others,
   1. The outlet existing sales per month.
   2. The outlet potentials in terms of service patronage, facilities availability, population of the area and so on.

   If the outlet lacks any facility as dictated by the proposal, then coca cola can intervene to provide that facility i.e. rebuilding a restaurant to make it more decent, providing branded T.V to hotels and recreational
centre’s, providing cooling facilities, branding an outlet in coca cola logo and color to make it attractive and so on. Some of the practices are as listed below:

1. Building/Renovating restaurants for customers and insisting of selling only Coca-Cola (Food vendor sector)
2. Providing utilities like TV, Bedspread, Freezer and so on to major hotels and insisting on exclusively selling Coca-Cola product (hotel and recreation sector)
3. The owners and its entire household
4. Special additional commission or discount to the exclusive outlets
5. Special depots in schools and other recreational areas where anybody that attends will have to market Coca-Cola products.

Because of the level of poverty in Nigeria among SME’s, this practice forms an improvement and intervention to the business of the entrepreneur, who easily accepts the conditions attached to the assistance. The cost to the company is expected to be written-off from the profit realized from the customer’s outlet within six months.

The company had to sign an exclusive agreement of minimum of two years (2 years) depending on the cost of the intervention the company can increase the length of the exclusive agreement

By the time of the completion of the agreement, the outlet would have already been used to the practices of exclusivity and hence could remain exclusive to Coca-Cola longer than the agreement.

This is explained further thus.

If \( y \) is the profit realized from an outlet, monthly and regularly for one year. The company can estimate an increase in the sales from this outlet to \( Y+\Delta Y \) /month when the outlet has been rebuilt. The actual calculation of expected profit on \( Y+\Delta Y \) is based on the rebuilding the outlet so that shocks can be accommodated. Shocks is defined as the discrepancies between the expected profit and actual profit. If the cost of rebuilding is \( X \) and the exclusive agreement is 2 years, then expected profit for six months is \( (Y+\Delta Y - X) \) 6 ≤ 0. i.e. they must cover the cost within 6 months.

For 2 years, the expected profit = \( (Y+\Delta Y - X) \) 6 + \( (Y+\Delta Y) \) 18-24C = Z i.e. Z is the total profit for the period of agreement.

Therefore, if there is no such intervention, the two years will be equal to \( Y-C \) 24. More often than not Z is always far greater than \( (Y-C) \) 24 in the outlet, sometimes more than double.

For 2 years profit, \( [(Y+\Delta Y)-X]6 + (Y-\Delta Y)18-24C = Z \).

\( C \) = cost of the sales per month
\( Y \) = sales per month per outlet.
\( (Y-C) \) = profit per month
\( X \) = cost of intervention or provision of assistance to the company.

5. Findings

From the discussion, the findings are:

1. Competitors are already restricted in operations in the outlet considered since they can not sell.
2. More profit is realized from the outlets where restrictions are imposed and switching not allowed.
3. Competitors still have opportunities to operate in other outlets or sessions of the market that switching barriers have not been applied. Percentage of these outlets reveals the strength of the competitor.
4. The use of artificial switching barriers can strangulates or weaken Emerging competition products and hence competitors need more funds to operate.

5. The only sector /target that competitors can operate is In the low yield target/sector where the competitor need a lot of funds and building of market to operate. Other fully developed market had been “seized” by bigger competitors using artificial barriers.

6. Conclusion and Recommendation

In conclusion, there is the need to regulate competitive practices so as to allow emerging competitive products to have fair competitive environment

Where formidable and practicable, instituting barriers may provide competitive instrument once loss of sale can be minimized but it should not be encouraged so that emerging products and competition can have a level playground.

The practice of instigating switching barriers can also dictate an area for revenue yielding. Companies in Nigeria that institute competitive switching barriers should be taxed. Since more profit is expected from this practices as explained above and assuming there is level playground for business, the competitive profit ought to have been taxed. This will further discourage unfair practices and also provide revenue to the Government.

Lastly, the next research will focus on the ethical issue that arises from the practices of switching barriers on the customers/consumers.

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